

**NORTH DAVIS PREPARATORY
ACADEMY, INC.**

Financial Statements

**Government Auditing Standards and Other Required
Reports**

Years Ended June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

NORTH DAVIS PREPARATORY ACADEMY, INC.
Financial Statements
Government Auditing Standards and Other Required Reports
Years Ended June 30, 2006 and 2005

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**The Board of Directors
North Davis Preparatory Academy, Inc.**

Independent Auditors' Report

We have audited the accompanying statements of financial position of North Davis Preparatory Academy, Inc. (a nonprofit corporation) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Davis Preparatory Academy as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2006 on our consideration of North Davis Preparatory Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Schmitt, Giffeller, Linn & Co., P.C.
October 6, 2006



NORTH DAVIS PREPARATORY ACADEMY, INC.
Statements of Financial Position
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 321,822	\$ 227,667
Related party note receivable	3,201	3,239
Related party accounts receivable	4,407	-
Accounts receivable	<u>1,043</u>	<u>15,591</u>
Total current assets	330,473	246,497
Property and equipment, net	<u>262,831</u>	<u>239,853</u>
	<u><u>\$ 593,304</u></u>	<u><u>\$ 486,350</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 7,169	\$ 23,461
Related party payables	-	51,333
Current portion of note payable	29,083	19,809
Accrued liabilities	<u>103,683</u>	<u>98,346</u>
Total current liabilities	139,935	192,949
Note payable	-	28,621
Total liabilities	<u>139,935</u>	<u>221,570</u>
Net assets:		
Unrestricted	453,369	264,780
Temporarily restricted	-	-
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>453,369</u>	<u>264,780</u>
	<u><u>\$ 593,304</u></u>	<u><u>\$ 486,350</u></u>

See accompanying notes and independent auditors' report.

NORTH DAVIS PREPARATORY ACADEMY, INC.
Statement of Activities and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	June 30, 2006		
	Unrestricted	Temporarily Restricted	Total
Revenue and gains:			
Grants:			
Federal	\$ -	\$ 143,421	\$ 143,421
State	2,004,723	132,016	2,136,739
Local	11,497	-	11,497
Fund raising	5,132	-	5,132
Net assets released from restriction	275,437	(275,437)	-
Total revenue, net of assets released from restriction	2,296,789	-	2,296,789
Expenses:			
Instructional - teachers	1,288,987	-	1,288,987
Instructional - aides	28,262	-	28,262
Administration operations	144,608	-	144,608
Student support service	6,958	-	6,958
Operation and maintenance of facility	596,770	-	596,770
Depreciation	42,615	-	42,615
Total expenses	2,108,200	-	2,108,200
Increase in net assets	188,589	-	188,589
Net assets, beginning	264,780	-	264,780
Net assets, ending	\$ 453,369	\$ -	\$ 453,369

NORTH DAVIS PREPARATORY ACADEMY, INC.
Statement of Activities and Changes in Net Assets, Continued
Years Ended June 30, 2006 and 2005

	June 30, 2005		
	Unrestricted	Temporarily Restricted	Total
Revenue and gains:			
Grants:			
Federal	\$ -	\$ 350,581	\$ 350,581
State	1,685,658	132,016	1,817,674
Local	29,397	-	29,397
Lunch sales	15,894	-	15,894
Net assets released from restriction	482,597	(482,597)	-
Total revenue, net of assets released from restriction	2,213,546	-	2,213,546
Expenses:			
Instructional - teachers	1,193,227	-	1,193,227
Instructional - aides	44,967	-	44,967
Administration operations	152,888	-	152,888
Student support service	59,016	-	59,016
Operation and maintenance of facility	478,429	-	478,429
Depreciation	18,883	-	18,883
Total expenses	1,947,410	-	1,947,410
Increase in net assets	266,136	-	266,136
Net assets, beginning	(1,356)	-	(1,356)
Net assets, ending	\$ 264,780	\$ -	\$ 264,780

See accompanying notes and independent auditors' report.

NORTH DAVIS PREPARATORY ACADEMY, INC.
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase in net assets	\$ <u>188,589</u>	\$ <u>264,780</u>
Adjustments to reconcile increase in net assets to net cash flows from operating activities:		
Depreciation	42,615	18,883
Changes in operating assets and liabilities:		
Accounts receivable	14,548	(15,591)
Related party accounts receivable	(4,407)	-
Related party note receivable	38	(3,239)
Accounts payable	(16,292)	23,461
Related party payable	(51,333)	51,333
Accrued payables	<u>5,337</u>	<u>98,346</u>
Total adjustments	<u>(9,494)</u>	<u>173,193</u>
Net cash flows from operating activities	<u>179,095</u>	\$ <u>437,973</u>
Cash flows from investing activities:		
Acquisition of property and equipment	<u>(65,593)</u>	<u>(258,736)</u>
Net cash flows from investing activities	<u>(65,593)</u>	<u>(258,736)</u>
Cash flows from financing activities:		
Issuance of note payable	<u>(19,347)</u>	<u>48,430</u>
Net cash flows from financing activities	<u>(19,347)</u>	<u>48,430</u>
Net change in cash	94,155	227,667
Cash, beginning	<u>227,667</u>	<u>-</u>
Cash, ending	<u>\$ 321,822</u>	<u>\$ 227,667</u>

See accompanying notes and independent auditors' report.

NORTH DAVIS PREPARATORY ACADEMY, INC.
Notes to Financial Statements
June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies

This summary of significant accounting policies of North Davis Preparatory Academy (the Academy) is presented to assist in understanding the Academy's financial statements. The financial statements and notes are representations of the Academy's management, who are responsible for their integrity and objectivity.

Operations and Purpose

The Academy was formed in 2004 and is a non-profit institution, which was organized under the non-profit corporation laws of the State of Utah. The Academy was organized by a group of parents, teachers, and business professionals to provide an educational opportunity in Layton that was not governed by the local school district. The Academy was founded on the premise that parents as partners in the learning process leads to success for each child. Every parent is asked to be involved with the school either through committees or through volunteering time in the classroom or with other needs the school may have as they arise.

Method of Accounting

The Academy prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash Equivalents

The Academy considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NORTH DAVIS PREPARATORY ACADEMY, INC.
Notes to Financial Statements, Continued
June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

Restrictions on Net Assets

Unrestricted Net Assets – The unrestricted net asset balance pertains primarily to amounts that are not designated for specific purposes apart from minimum school requirements.

Temporarily Restricted Net Assets – Donor restricted support is reported as an increase in temporarily restricted net assets. Temporarily restricted net assets are funds that are subject to restrictions of time or use by the donor. The restrictions are removed after the specified dates or after the occurrence of an event specified by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. There were no temporarily restricted net asset balances at the years ended June 30, 2006 and 2005.

Permanently Restricted Net Assets – Permanently restricted net assets represents the cumulative amount of endowment contributions received. Endowment contributions are principal amounts donated with the agreement that only future earnings on the principal be available for the operations of the Academy. There were no permanently restricted net asset balances at the years ended June 30, 2006 and 2005.

Contributions

The Academy has adopted SFAS No. 116, Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Property and Equipment

Property and equipment is recorded at cost. The Academy provides for depreciation of property and equipment using the straight-line method in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations. The estimated useful lives are between three and ten years and individual items with a purchase cost over \$500 are depreciated rather than expensed.

Depreciation expense was \$42,615 and \$18,883 for the years ended June 30, 2006 and 2005, respectively.

NORTH DAVIS PREPARATORY ACADEMY, INC.
Notes to Financial Statements, Continued
June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

Tax Status

The Academy is exempt from federal income taxes or excise taxes under Section 501(c) (3) of the Internal Revenue Code.

Contributed Services and In-Kind Donations

During the years ended June 30, 2006 and 2005, many individuals volunteered their time and perform a variety of tasks that assist the Academy's facilities, but these services do not meet the criteria for recognition as contributed services.

(2) Property and Equipment

Property and equipment at June 30, 2006 and 2005 are comprised of the following:

	<u>2006</u>	<u>2005</u>
Furniture and equipment	\$ 125,814	\$ 80,867
Computers	90,678	80,340
Textbooks	91,364	83,547
Library books	10,776	10,048
Audio and visual materials	5,697	3,934
	<u>324,329</u>	<u>258,736</u>
Less accumulated depreciation	<u>(61,498)</u>	<u>(18,883)</u>
	<u>\$ 262,831</u>	<u>\$ 239,853</u>

(3) Related Party Transactions

Note Receivable

The Academy has a note receivable of \$3,201 and \$3,239 from a related party at June 30, 2006 and 2005, respectively. The note is payable monthly through September 2006.

Accounts Payable Transactions

The Academy received non-interest bearing advances from Academica Corporation (Florida), an affiliate, for start up loans and payroll expenses. For the year ended June 30, 2005, related party accounts payable transactions totaled \$51,333. This amount was paid during the subsequent fiscal year.

NORTH DAVIS PREPARATORY ACADEMY, INC.
Notes to Financial Statements, Continued
June 30, 2006 and 2005

(3) Related Party Transactions, Continued

Operating Lease Agreement

The Academy leases a facility under an operating lease with North Davis School Development, LLC, a limited liability company related by common management, expiring July 2008. Rental expense recognized under this lease for the years ended June 30, 2006 and 2005 were \$445,153 and \$351,661, respectively. Rent is adjusted during the life of the lease based on the consumer price index.

Future minimum lease payments under this operating lease are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2007	\$ 427,543
2008	427,543
2009	427,543
Thereafter	-
	<u>\$ 1,282,629</u>

(4) Grants

The Academy received money in the form of grants from federal, state, and local sources. The total amount of grants received for the years ended June 30, 2006 and 2005 are \$2,291,657, and \$2,196,354, respectively.

(5) Notes Payable

The Academy has a note payable to a bank due in monthly installments of \$522 through 2007. The note bears interest at 3.9% and is secured by computers. As of June 30, 2006 and 2005, the balance on the note was \$29,083 and \$48,430, respectively. Future maturities on this note are \$29,083 for the fiscal year ended June 30, 2007.

NORTH DAVIS PREPARATORY ACADEMY, INC.
Notes to Financial Statements, Continued
June 30, 2006 and 2005

(6) Retirement Plan

The Academy has a defined contribution retirement plan covering all full-time, salaried employees. The plan is administered by A Plus Benefits, an outsourcing company that the Academy has contracted with, to perform its payroll and retirement functions. Eligible employees may contribute into an account, at their option and discretion. The Academy does not match employee contributions. The plan accepts new enrollments at any time in the year after completing a 90-day probationary period. Contribution changes can be made quarterly on or before the 15th day of the last month of the calendar quarter. Contributions to the plan for the years ended June 30, 2006 and 2005, totaled \$99,083 and \$10,667, respectively.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**The Board of Directors
North Davis Preparatory Academy, Inc.**

We have audited the financial statements of North Davis Preparatory Academy, Inc. as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Davis Preparatory Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Davis Preparatory Academy's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information of the audit committee, administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Schmitt, Gigante, Linares: C. A.C.

October 6, 2006

Independent Auditors' Report
State of Utah Legal Compliance

The Board of Directors
North Davis Preparatory Academy, Inc.

We have audited the basic financial statements of North Davis Preparatory Academy, Inc., a nonprofit corporation, for the year ended June 30, 2006 and have issued our report thereon dated October 6, 2006. As part of our audit, we have audited North Davis Preparatory Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The Academy received the following major state assistance programs from the State of Utah:

Minimum School Program

Our audit also included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Cash Administration
Purchasing Requirements
Budgetary Compliance
Other General Compliance Issues

The administration of North Davis Preparatory Academy, Inc. is responsible for the Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of

audit findings. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, North Davis Preparatory Academy, Inc., complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of service allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Schmitt, Giffiter, Smith & Co., P.C.

October 6, 2006

NORTH DAVIS PREPARATORY ACADEMY, INC.
State Compliance Schedule of Audit Findings
June 30, 2006 and 2005

CURRENT YEAR FINDINGS – STATE COMPLIANCE

05-1 Treasury Bond (REPEAT FINDING)

Condition: The State of Utah requires that every public treasurer shall secure a fidelity bond, based on the current year's budgeted gross revenues, which includes all funds collected or handled by a public treasurer. In the current year, the Academy did not secure a fidelity bond based on the current year's budgeted gross revenue.

Recommendation: We recommend that the Academy secure a fidelity bond based on fiscal year 2005 budgeted gross revenue.

Administration Response: NDPA and its administration will secure a bond as recommended.

Status: Academica West will purchase a Treasury bond on their Treasurer to fulfill this requirement.

PRIOR YEAR FINDINGS – STATE COMPLIANCE

05-2 Budget Approval

Condition: The State of Utah requires that the budget be formally adopted and approved and recording thereof in the minutes. Our audit procedures indicated that the budget was formally adopted, but not recorded, per review of the Academy's minutes.

Recommendation: we recommend that the Board formally records the adoption of the yearly budget in the minutes.

Administration Response: Although a budget was formally adopted in an open and public board meeting for this reporting year, it apparently was mistakenly not reported in the meeting minutes. For the current and all subsequent years, NDPA will formally adopt its budget by recording it in the minutes.

Status: Resolved

NORTH DAVIS PREPARATORY ACADEMY, INC.
State Compliance Schedule of Audit Findings
June 30, 2006 and 2005

PRIOR YEAR FINDINGS – STATE COMPLIANCE, CONTINUED

05-3 Cash Management

Condition: The State of Utah requires that receipts be deposited within three business days of being received. During the fiscal year ended June 30, 3005, the Academy did not always deposit receipts within the three business day period.

Recommendation: We recommend that the Academy establish controls necessary to ensure that receipts are deposited within three business days of being received.

Administration Response: NDPA notes that as of November 2004 it no longer collects money for its lunch program as it has contracted with Davis Nutrition for the services and notes that this should not be an item of concern in the 2006 fiscal year.

Status: Resolved